

tion's 1984 and 1985 budgets. CBO estimates that this increase would bring an additional \$5.6 billion in revenues (see Table II-7). The Administration also proposes to reduce federal civilian pay increases below average private-sector wage growth projected for the 1987-1991 period. This can be done at the President's discretion, unless the Congress passes legislation overruling the decision. CBO estimates that this proposal would have no effect on total revenues.

The Administration is proposing that the rail industry finance a larger portion of rail pension benefits, reducing the federal government subsidy, and that these benefits be taxed under the general rules for private-sector pension benefits. Taken together, the two proposals would increase revenues by about \$150 million per year. In addition, the Administration is proposing for the third year to extend unemployment insurance (UI) coverage to the rail industry--at present, the only sector not covered under the insurance system. If brought into the system, the rail industry UI contributions would come to \$100-\$150 million per year. The Administration is also

TABLE II-7. CBO ESTIMATES OF REVENUE EFFECTS OF ADMINISTRATION'S PROPOSED CIVIL SERVICE RETIREMENT AND RAILROAD INDUSTRY TAXES
(By fiscal year, in billions of dollars)

Proposal	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
Increase in CSR Employee Contribution	0.9	1.2	1.2	1.2	1.1	5.6
Railroad Industry Tax Increases	0.2	0.3	0.3	0.3	0.2	1.3
Increase in D.C. Government Retirement Contribution	<u>a/</u>	<u>a/</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.3</u>
Total	1.1	1.6	1.5	1.5	1.5	7.2

a. Revenue gain of less than \$50 million.



proposing, for the third year, to increase the District of Columbia employer contribution to CSR to the level needed to cover the full cost of the retirement program. Higher D.C. government employee contributions and reduced program benefits are also proposed.

Other Proposals

The budget includes two other significant budgeted revenue increases, from the acceleration of state and local government deposits of payroll taxes and from petroleum overcharge restitution fund receipts. CBO estimates that the acceleration of deposits would bring \$2 billion in revenues forward into 1987-1990, resulting in a reduction in 1991 revenues of about \$900 million (see Table II-3). This year's proposal, in contrast to the proposal in last year's budget, would move state and local governments to the faster schedule in stepwise fashion over two years to give them time to adjust to the change. A similar proposal, discussed this year in the Senate, met some opposition from state and local governments.

CBO assumes that the Administration's estimated \$1 billion in federal government collections from the petroleum overcharge restitution fund during 1987 will not materialize because of a recent Supreme Court decision that requires apportionment of these funds to state governments by early March 1986--too soon for passage of legislation mandating a federal government share in the apportionment.

CBO estimates that the President's remaining budget proposals would have, at most, minor effects on revenues. Additional detail on CBO's estimates of Administration revenues is contained in Appendix B.


CHAPTER III

THE ADMINISTRATION'S DEFENSE BUDGET

The President's budget for fiscal year 1987 proposes 3 percent real growth in national defense over the 1987-1991 period--the same real program level that was contained in the 1986 Congressional budget resolution. That resolution assumed zero real growth for defense in 1986. Congress actually provided less than zero real growth in defense appropriations in 1986, and the Balanced Budget Act sequestration for 1986 reduced the program level further--to 3 percent below the previous year in real terms.

The Administration's budget requests \$320 billion in budget authority for the national defense function in 1987, an increase of \$33 billion over the post-sequestration level for 1986 and \$19 billion over the CBO baseline. Over the 1987-1991 period, the budget would exceed the CBO baseline--which assumes zero real growth in defense appropriations--by \$163 billion. In terms of real growth, the measurement depends on whether year-to-year changes in new budget authority alone is considered, or whether the focus is on year-to-year changes in program levels. On the basis of actual 1986 budget authority after sequestration--about \$286.8 billion--and an inflation rate of about 3.4 percent, the President's request for 1987 new budget authority reflects about 8 percent real growth. In order to pay for certain 1986 military personnel costs, however, the Congress made unobligated balances available in lieu of new budget authority. This has the effect of raising the real program level in 1986 by about \$5 billion above what it would be under new budget authority. If the higher program level is used as the base, then the President's request contains about 6 percent real growth in 1987. Real growth averages about 3 percent annually over the five-year period.

The largest defense funding increases proposed in the President's budget are in the readiness accounts, especially operation and maintenance (O&M). In 1987, real growth is concentrated in O&M and research and development, and procurement declines in real terms. From 1988 through 1991, O&M would continue to experience greater relative real growth; however, unlike 1987 procurement would grow faster than research and development during the out-years.



CBO estimates that outlays for the national defense function under Administration proposals would be significantly higher than the estimates contained in the President's budget--\$68 billion higher over the next five-years. In 1987 alone, the CBO estimate is higher by \$14.5 billion. Most of the differences in outlay estimating are concentrated in the operation and maintenance, procurement, and research and development accounts. Estimating defense outlays is difficult because appropriations for different activities are spent over varying periods and can be affected by many factors. In the past, both CBO and the Administration have employed historical spending patterns to estimate outlays from given levels of budget authority. This year, CBO continues this approach while the Administration believes that various factors--such as slower progress payments to contractors--will alter the historical patterns. In CBO's view, most of these factors have been taken into account in its spending rate assumptions (see box).

DEFENSE FUNDING LEVELS

The Administration's budget request of \$320 billion in budget authority for the national defense function in 1987 represents an increase of \$33 billion over the post-sequestration level for 1986 and \$19 billion over the CBO baseline as noted above. These increases translate into 6 percent real growth in 1987 and an annual average of about 3 percent real growth over the 1987-1991 period (see Table III-1).

The real growth in budget authority would continue the trend of annual real increases since 1980 (with the exception of 1986 in which year the defense budget declined about 3 percent in real terms). The real decline in 1986 came after a 9 percent average annual real growth in the previous five years.

The request for 1987 contains a slight shift in the composition of budget authority. From 1980 through 1986, the budget became more heavily weighted towards investment, with the procurement accounts growing the most--from about 24 percent to almost 32 percent of the defense budget. All but two major categories of accounts (military personnel and research, development, testing and evaluation--RDT&E) showed real declines in 1986, but procurement is the only major category that would decline in real terms in 1987. Operation and maintenance (O&M) and RDT&E receive by far the largest increases. The request for O&M exceeds the CBO baseline by \$9.0 billion and the RDT&E request is \$7.5 billion over the baseline. Procurement's share of the request falls from 32 percent of the defense budget to about 30 percent in 1987, while the shares for O&M and RDT&E

DEFENSE BUDGET ESTIMATES

The CBO and Administration estimates for the defense budget differ in two basic ways. First, CBO and the Administration use different concepts for defining the defense baseline. The Administration's defense baseline, or current services projections, for 1987 and 1988 are the same as those of the 1986 Congressional budget resolution. For 1989 through 1991, the estimates reflect the budget resolution policy of 3 percent annual real growth in budget authority. The CBO defense baseline, on the other hand, assumes no real growth in program level throughout the five-year projection period. The two different defense baselines are as follows:

(in billions of dollars)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
CBO Baseline					
Budget Authority	300.9	314.7	329.5	345.0	361.5
Outlays	284.0	296.4	310.9	326.9	343.9
Administration Current Services					
Budget Authority	323.4	346.8	371.5	397.2	423.5
Outlays	284.9	303.7	328.6	354.1	379.4

The second major difference in the defense budget estimates results from the use of different technical methods for estimating the outlays that would result from the Administration's budget proposals. As explained more fully in this chapter and in Appendix C, CBO uses historical spending rates to estimate outlays that will occur each fiscal year from given levels of budget authority provided in appropriation bills. The Administration also uses the same methodology, but believes that historical spending patterns will not hold for the future. The different outlay estimates for the Administration's 1987-1990 defense budget authority proposals are shown below (in billions of dollars).

(in billions of dollars)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Outlays Resulting from Administration Budget Authority Proposals					
CBO	296.7	316.6	336.1	356.5	376.9
Administration	282.2	299.1	322.3	344.8	366.3

TABLE III-1. MAJOR SPENDING CHANGES PROPOSED IN ADMINISTRATION'S 1987 BUDGET FOR FUNCTION 050: NATIONAL DEFENSE (By fiscal year, in billions of dollars)

Changes	1987	1988	1989	1990	1991	Five-Year Totals
Budget Authority						
CBO Baseline	300.9	314.7	329.5	345.0	361.5	1,651.6
Proposed Changes						
Military personnel	1.5	2.3	2.5	2.7	2.6	11.5
Operation & maintenance	9.0	12.0	16.3	20.8	22.1	80.2
Procurement	-0.9	1.7	7.2	9.7	12.3	29.9
RDT&E a/	7.5	6.5	4.4	3.6	6.9	28.9
Military construction	1.3	3.4	3.1	4.3	3.9	15.9
Other-DoD	0.2	-0.2	-1.4	-2.9	-5.0	-9.4
Subtotal	18.5	25.6	32.2	38.1	42.6	157.1
Other defense	0.8	1.0	1.2	1.2	1.2	5.4
Total Changes	19.4	26.6	33.4	39.3	43.8	162.5
President's 1987 Budget as Reestimated by CBO	320.2	341.3	362.9	384.3	405.3	1,814.0
Outlays						
CBO Baseline	284.0	296.4	310.9	326.9	343.9	1,562.1
Proposed Changes						
Military personnel	1.2	2.2	2.4	2.6	2.5	11.0
Operation & maintenance	6.4	10.6	14.5	18.7	20.8	71.0
Procurement	1.2	1.3	2.5	4.1	5.2	14.3
RDT&E a/	3.5	5.9	5.1	4.1	5.6	24.2
Military construction	0.1	0.9	1.9	2.7	3.5	9.1
Other-DoD	0.2	-0.9	-1.9	-3.3	-5.3	-11.2
Subtotal	12.6	19.9	24.6	29.0	32.3	118.4
Other Defense	0.1	0.3	0.5	0.6	0.7	2.2
Total Changes	12.7	20.2	25.1	29.6	32.9	120.6
President's 1987 Budget as Reestimated by CBO	296.7	316.6	336.1	356.5	376.9	1,682.8

SOURCE: Congressional Budget Office.

a. Research, development, test, and evaluation.

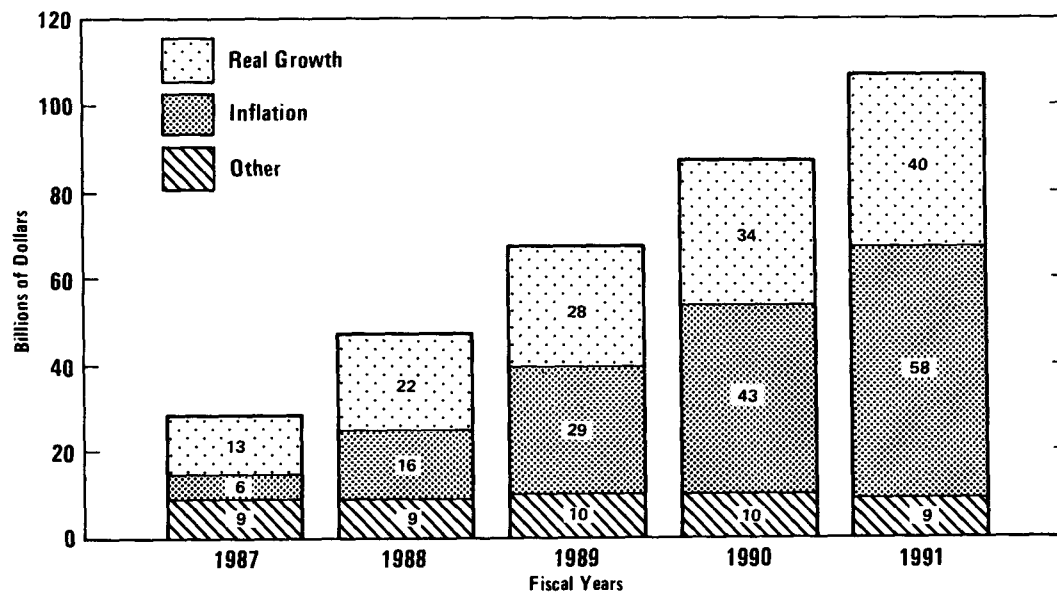
rise slightly from 26 percent to 27 percent and from 11.6 percent to 13.1 percent, respectively.

The relative shares continue to change after 1987. By 1991, RDT&E's share of budget authority returns to its 1986 value--about 11.5 percent. Procurement's share rises to about 31 percent and O&M's share is one percentage point higher than 1987 at 28 percent. As Table III-1 shows, all major accounts would experience real growth after 1987, so the change in relative shares reflects differences in the rates of growth rather than actual reductions in some accounts and increases in others. (The only reductions from the CBO baseline after 1987 occur because of lower pay raise assumptions in the Administration's budget.) (See box on inflation.)

Outlays under the Administration's budget, as estimated by CBO, increase \$27 billion in 1987 over the level estimated for 1986 and exceed CBO baseline projections by \$13 billion, as shown in Table III-1. Compared with 1986 outlays--estimated to be about \$269.5 billion--outlays would grow by about \$9 billion as the result of past increases in budget authority (and assuming that budget authority in 1987 was held at the 1986 post-sequestration level). Covering the costs of inflation would add about \$6 billion. The final \$13 billion of outlay growth estimated for 1987 would stem from the real growth in budget authority. These differences are shown in Figure III-1.

Figure III-1.

Sources of Outlay Growth in Defense Outlays, Fiscal Years 1987-1991



SOURCE: Congressional Budget Office.

INFLATION AND REAL GROWTH IN THE DEFENSE BUDGET

The annual defense budget request is for new budget authority and includes funds to cover anticipated inflation. The budget authority represents the right to enter into contracts to buy goods and services. Since these contracts--in particular those for major weapons such as ships, tanks, and aircraft--can extend over several years, budget authority to fund the estimated costs of inflation must also extend over the life of each contract. Thus, a substantial part of the DoD budget request represents future price changes.

Both CBO and the Administration base their estimates for defense price changes on their overall economic forecasts. The Administration uses deflators for pay, fuel, and other purchases. In recent years, the Administration has used a special deflator for major commodities that assumed 30 percent faster price growth for them than for the general economy, but the 1987 budget excludes this premium. The following table shows CBO and Administration outlay estimates for all defense purchases less compensation. The differences are very close to the differences between CBO and Administration estimates of the GNP deflator (see Chapter I).

COMPARISON OF CBO AND ADMINISTRATION INFLATION
ASSUMPTIONS FOR DEFENSE PURCHASES
(Percent change, purchase deflator for outlays)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
CBO	3.1	3.1	3.8	4.1	4.1	4.1
Administration	2.7	3.8	3.7	3.3	2.9	2.3

Pay raises pose a unique problem in that they are treated as administered price changes. Real growth in military personnel is determined by increases in strengths; in the short term, pay raises do not affect strength and quality appreciably and are a suitable proxy for price changes. In the long run, differences in pay between federal and private employees can make a difference in measuring real growth because quantity and quality have time to change.

Concern about aggregate real growth focuses on defense budget authority, however, and requires use of budget authority deflators rather than outlay deflators. (The latter are more relevant for comparisons with other price indexes.) Budget authority deflators are a weighted average of outlay deflators reflecting price changes over the period when funds are spent. Using the Administration's pay assumptions and the individual forecasts of CBO and the Administration for other defense purchases, real growth in budget authority averages about 3 percent from 1987 through 1991.

Measuring real growth in 1987 depends on whether the year-to-year change in new budget authority is considered or whether the focus is on year-to-year changes in program levels. On the basis of actual 1986 budget authority after sequestration--about \$286.8 billion--the President's request for 1987 new budget authority reflects about 8 percent real growth. In order to pay for certain 1986 military personnel costs however, the Congress made unobligated balances available in lieu of new budget authority. This raised the real program level in 1986 by about \$5 billion above what it would be under new budget authority. If the higher program level is used as the base, then the President's 1987 budget authority request represents about 6 percent real growth.

The future pattern of outlay growth under the Administration's budget proposals shows that the largest growth is attributable to meeting the costs of inflation. Over the five years, outlays would grow by \$336 billion over the 1986 level. About 45 percent of the increase, or about \$152 billion, would result from expected price growth. Another 40 percent, or \$137 billion, would represent real growth in budget authority and the remaining 15 percent, or \$47 billion, would stem from past increases in budget authority.

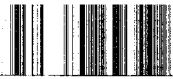
DEFENSE OUTLAY ESTIMATES

Using the Administration's budget authority request and historical spendout rates, CBO estimates that outlays for the national defense function will be significantly higher than the estimates contained in the President's budget. Table III-2 shows that the CBO estimates for some program areas are lower than the Administration's, but that higher estimates for operation and maintenance, procurement, and research and development dominate the net result. The estimating differences follow the same pattern in the out-years, with the major discrepancies concentrated in the same three categories. The net difference rises from \$14.5 billion in 1986 to \$17.5 billion in 1988 and then declines gradually to \$10.6 billion in 1991, which is still a very large estimating difference by historical standards.

Comparison with Past Estimating Differences

CBO and the Administration have never had estimating differences of this magnitude before. The 1986 difference--\$14.5 billion--is more than double the greatest difference that occurred before this year in terms of current dollars; after accounting for program growth, the difference between the two estimates is only 50 percent greater. Table III-3 shows that before 1986 the CBO and Administration "budget year" estimates usually have been very close and that CBO's estimate is as likely to be lower as higher than the Administration's; the two estimates varied widely--by \$6.5 billion--only for the Administration's first (1982) budget. ^{1/} Table III-3 shows 30 data points for estimating differences for the 1982-1986 budget requests. Only two are greater than \$10 billion and they are two to four years after the budget year. For budget year 1987, all but the current year estimates (five of six) are greater than \$10 billion.

-
1. The term budget year refers to the upcoming fiscal year budget. The term current year refers to the fiscal year in progress.



Relevance of Historical Outlay Rates

In the past, both CBO and the Administration have employed historical outlay rates to estimate outlays from given budget authority. The Administration published its outlay rates based on past spending patterns in the Defense Department's Financial Summary Tables. This year, CBO continues this approach while the Administration is deviating from it. Using the Administration's historical outlay rates for O&M, procurement, and RDT&E, CBO computed outlays \$14.3 billion higher than the President's budget estimates for 1987 and \$61.6 billion higher for the 1987-1991 period. CBO's own estimates for these accounts are also \$14.3 billion higher for 1987 and \$64.2 billion higher for the five years. If first-year outlay rates and outlay

TABLE III-2. CBO OUTLAY REESTIMATES OF PRESIDENT'S 1987
REQUEST FOR FUNCTION 050: NATIONAL DEFENSE
(By fiscal year, in billions of dollars)

	1987	1988	1989	1990	1991
President's Budget	282.2	299.1	322.3	344.8	366.3
Reestimates					
Military personnel	-0.2	-0.1	-0.1	-0.1	-0.1
O&M	0.7	6.3	5.8	4.6	4.2
Procurement	9.6	8.1	6.1	6.1	4.2
RDT&E	4.1	2.6	1.3	0.1	0.7
Military construction	0.6	0.7	0.8	0.9	1.0
Family housing	0.5	0.4	0.5	0.6	0.5
Revolving funds	-0.6	-0.3	-0.3	-0.1	0.5
Pay raises	-0.2	-0.2	-0.3	-0.3	-0.4
Other	<u>-0.1</u>	<u>-0.1</u>	<u>-0.1</u>	<u>-0.1</u>	<u>-0.1</u>
Subtotal	14.5	17.5	13.8	11.7	10.6
President's Budget as Reestimated by CBO	296.7	316.6	336.1	356.5	376.9

SOURCE: Congressional Budget Office.

rates and outlays from prior year appropriations used by the Administration in its 1986 budget request are employed, a similar analysis shows 1987 outlays in the three major accounts to be \$15.1 billion higher than the budget estimates.

In short, there is little disagreement between CBO and the Administration over outlays levels under historical spending patterns or outlay rates. Outlay estimating, nevertheless, is an imprecise process that uses both historical data and analytical judgments. In the past few years, defense outlays have been underestimated as well as overestimated by varying amounts. For example, applying both CBO and Administration spending rate assumptions to the levels of budget authority provided in previous years, estimated outlays are within 2 percent to 4 percent of actual outlays for the 1980-1985 period for the operations and maintenance, procurement, and research and development categories. (See details in Appendix C.) In contrast, the estimating differences between CBO and the Administration for these categories for the 1987-1991 period range from 4 percent to 8 percent per year, or double the historical experience.

TABLE III-3. DIFFERENCES IN OUTLAY ESTIMATES OF PRESIDENT'S 1987 BUDGET REQUEST (CBO'S ESTIMATES LESS ADMINISTRATION'S ESTIMATES) (By fiscal year, in billions of dollars)

Budget Year	Current Year	Budget Year (BY)	BY+1	BY+2	BY+3	BY+4
1982	0.7	6.5	4.7	11.4	-0.6	a/
1983	3.3	1.8	1.8	2.0	3.7	9.3
1984	-0.5	-0.6	-3.0	-1.5	3.3	4.2
1985	-2.9	1.5	4.7	3.9	7.7	10.2
1986	-1.2	-1.3	-1.9	0.1	4.2	6.1
1987	3.7	14.5	17.5	13.8	11.7	10.6

SOURCE: Congressional Budget Office

a. Less than \$500 million.



Other Factors Affecting Outlays

The Administration's outlay estimates for 1987 reflect the levels contained in the Congressional budget resolution of last August, as adjusted for new pay and inflation assumptions. It should be noted, however, that the budget resolution targets for defense programs were derived from Senate budget authority figures and the House outlay estimates, with no program detail. The Senate-passed resolution had an outlay target for 1987 that was \$7 billion higher than the final resolution--an amount equal to about half of the CBO and Administration estimating difference. Also, the Senate resolution anticipated a much slower spending program than the Administration is proposing. The Senate resolution assumed the greatest increases in procurement outlays which spend out slowly while the Administration proposes increases in the fast spending categories of operation and maintenance and RDT&E. Thus, program composition can account for much of the remaining estimation difference between the CBO and Administration outlay estimates for 1987.

The Administration also justifies its budget estimates on the basis of policy changes and other considerations that it believes will result in slower spending than that implied by historical outlay rates. The main policy changes that, in its judgement, slow outlays are:

- o Reduced progress payments to defense contractors--a policy decision that went into effect during fiscal year 1985.
- o Suspensions of contractors and the introduction of tougher audits to reduce costs.
- o The large amount of funding--about \$24 billion--being withheld from obligation because of uncertainty over its availability; these funds are associated with the 1986 sequestration, potential transfers, and limits on appropriations in excess of authorizations.
- o Uncertainty and hesitation on the part of contracting and finance officers who do not know the ultimate availability of funding as the result of possible future sequestrations.

CBO believes that these factors will affect outlays by only a small amount, if at all. What impact they might have should be temporary and would not affect outlays beyond a few months. For example, the Department of Defense (DoD) decided to slow progress payments during fiscal year

1985; any impact, however, would be limited to 1986 and 1987 because outlay savings in later years would be offset mostly by payments that were withheld earlier. In other words, this policy affects only the timing of outlays and, over time, the savings vanish. Similarly, the outlay effects of temporary suspensions of contractors would affect only timing of outlays and would be small in the long run .

Withholding funds does not affect outlay rates per se; rather it affects the base against which the outlay rates are multiplied. CBO's estimates reflect the outlay savings from the 1986 sequestration, the transfers to military personnel, and other factors leading to ultimate expenditures 2 percent to 3 percent less than the full appropriations.

If these policies and considerations were going to affect outlays, their effect should already be observed. Since last July, however, defense outlays have speeded up and have been 14 percent above previous year levels. This rate of spending is expected to slow considerably during the next few months as a result of the 1986 appropriation and sequestration actions, but CBO does not expect it to slow down as much as implied by the Administration's estimates. In CBO's view, the policy and other factors that the Administration assumes will slow spending will have little or no additional effect on spending rates; those that do have impact are reflected in CBO's estimates as well. CBO believes that historical spending patterns are still relevant and should continue to be used for outlay estimates.

Finally, the Administration has argued that it can manage its outlays to achieve its budget estimates. CBO believes this would be possible, though difficult. A fundamental difficulty centers on the decentralized nature of the defense finance and accounting system. Managing outlays would require an intricate set of controls and procedures that do not exist now and would take some time to develop.

Another difficulty stems from the fact that about a third of all defense outlays result from prior-year appropriations and contract commitments. Controlling these outlays would be difficult because, as contractors make deliveries, they expect to be paid. In those instances where delays are legally possible, they may induce contractors to raise future contract bids, thereby raising the cost of procurement.

Finally, one way to manage outlays is to slow obligations, yet this avenue has certain problems that stem from conflicting objectives of

keeping outlays down and, at the same time, using appropriations to serve their purpose of improving national defense. Further, the ability to slow obligations is constrained by time limits on the availability of funding after which unobligated funds lapse or are no longer available. To the extent that obligations were slowed, inefficiencies and cost growth might result, making the slowdown undesirable even if it were possible.

MAJOR DEFENSE PROPOSALS

The defense budget serves the national security objectives of the United States by supporting a variety of land, air, and naval forces. Under the Administration's budget, most major force categories would increase in 1987--especially the strategic forces in which the number of bomber aircraft would increase about 10 percent and the number of sea-based intercontinental ballistic missiles would increase about 6.5 percent. In addition to greater numbers, forces would be modernized; for example, M-60 tanks now in the Army's inventory would be replaced with M-1 tanks. Also, increases in manpower might make some units more effective even though the number of units was unchanged.

Table III-4 examines the proposed funding for the defense force structure in terms of the appropriation categories used by the Congress. The categories of military personnel and O&M fund the operations and readiness of currently deployed forces. Military personnel pays for those people on active and reserve duty and O&M finances a wide range of logistical and personnel support functions. The procurement accounts contribute to force operations and readiness with funding for spare parts.

Table III-4 presents the sources of the 6 percent real growth proposed by the Administration. For example, it shows that the military personnel account would grow in real terms in 1987 by 2 percent--the same rate of increase as in 1986, but a slightly lower rate than annual increases from 1980 through 1985. O&M, on the other hand, would recover from the real decline in 1986 by growing at a rate of about 12 percent--a rate much higher than the average rate of about 6 percent achieved for the 1980-1985 period. Though not shown in the table, funding for procurement of spare and repair parts would decline about 1 percent in real terms between 1986 and 1987; these funds fell about 20 percent in real terms between 1985 and 1986, but they had grown in real terms by an annual average rate of about 24 percent for the 1980-1985 period.

The force growth projected for 1987 results from past decisions to procure ships, aircraft, and vehicles. The improvements in quality of weapons results from past decisions to pursue technological initiatives with RDT&E funding. These accounts grew rapidly from 1980 through 1985 and,

TABLE III-4. REAL GROWTH IN DEFENSE BUDGET AUTHORITY, BY APPROPRIATION CATEGORIES (By fiscal year, in billions of dollars and percent change)

Category	1987 Request (Dollars)	Real Growth			
		1980-85 Average (Percent)	1985-1986 (Percent)	1986-1987	
				Percent	Dollars
Military					
Personnel	76.8	3	2	2	1.5
Operation and Maintenance	86.3	6	-6	12	9.0
Procurement	95.9	15	-2	-1	-0.9
RDT&E	42.0	12	7	22	7.5
Military					
Construction	6.8	14	-7	24	1.3
Family Housing	3.4	8	-5	17	0.5
Other-DoD	0.3	a/	a/	a/	-0.4
Subtotal-DoD	311.5	9	-3	6	18.5
Other Defense	8.7	14	-4	9	0.8
Total, National Defense	320.2	9	-3	6	19.4

SOURCE: Compiled by Congressional Budget Office based on data supplied by the Department of Defense.

a. Because this category includes offsetting receipts and other miscellaneous accounts, real growth in percentage terms is misleading.

while procurement suffered a real decline in 1986, RDT&E grew about 7 percent in real terms. Similarly, procurement would decline in real terms in 1987 by about 1 percent and RDT&E would grow about 22 percent.

The following sections of this chapter discuss the composition of the Administration's defense budget in more detail, starting with the readiness accounts--military personnel and O&M--and concluding with the investment accounts--procurement and RDT&E.

Military Personnel

The military personnel appropriation funds the pay and allowances of members of active and reserve forces. The Administration has requested \$6.5 billion more in 1987 than was appropriated in 1986 for this account, the 1987 figure, however is only \$1.5 billion more than the CBO baseline--for a total of \$74.2 billion. The request calls for increasing both active and reserve (including the National Guard) strengths by 2.0 percent, or 65,000 people, by the end of 1987; this is the same rate of increase as the 1980-1985 average. Also, the request would raise certain components of military pay and allowances.

Table III-5 shows the average percent growth in strength levels for three periods: from 1980 through 1985, from 1985 to 1986, and from 1986 to 1987. Since 1980, active end strength--that is, the number at the end of the fiscal year--has increased by an average of 20,000 people, or 1.0 percent, per year. The growth in 1987 would be less--14,000 people, or 0.6 percent. Of the four services, the Army has had the smallest amount of growth over the 1980-1985 period. In 1987 the Army requests only 100 more active service personnel; however, as discussed below, Army Reserve components are growing. The largest active force growth would occur in the Navy, with the goal of manning a larger fleet. Of the 11,400 additional personnel requested by the Navy, 10,000 would be assigned to new ships and squadrons. The Marine Corps has requested the second largest growth in active service personnel as it continues to improve readiness, mobility, and fire power, highlighted by the addition of a target acquisition battery to its artillery forces. The Air Force increase would be relatively small, providing for new and revised force structure and modernization.

The 1987 request would raise end strengths in the reserve components by 51,263, or 4.5 percent, over 1986; this is slightly lower than the average increase since 1980. Army Reserve and National Guard strengths would increase by a combined 29,000 people (or 3.8 percent), mainly for combat support and combat service support. This increase would enable the Army

Reserve to reach its goal for 1987 of having 90 percent of its perceived requirement and allow the National Guard to build toward its 1991 strength goal of 492,100 people. Of the 29,000 additional people, 6,400 would be full-time personnel. The Navy Reserve would grow by 13,547, mainly for increased manning of Naval Reserve ships and for greater tactical, mobility, and support activities. The Marine Corps Reserve would grow by 1,381 people who would assume additional duties and missions. The Air Force Reserve and Air National Guard would increase by 7,441 people, mainly to support increased force structure and modernization.


CBO estimates the cost of the strength increases at \$330 million for active forces and \$570 million for the reserves. The Administration also is requesting \$2.9 billion for retired pay accrual and \$1.9 billion for the cost of

TABLE III-5. INCREASES MILITARY STRENGTH LEVELS (By fiscal year, in thousands of people at year end and percents)

Service Branch	1987 Request	Percent Increase		
		1980-1985 Average	1985-1986	1986-1987
Army	781	<u>a/</u>	<u>a/</u>	<u>a/</u>
Navy	593	1.6	1.9	2.0
Marine Corps	200	1.0	0.4	0.8
Air Force	<u>607</u>	<u>1.5</u>	<u>0.8</u>	<u>0.1</u>
Subtotal	2,181	1.0	0.8	0.6
Reserves	<u>1,186</u>	<u>4.8</u>	<u>4.3</u>	<u>4.5</u>
Total	3,367	2.2	1.9	2.0

SOURCE: Compiled by Congressional Budget Office from data supplied by the Department of Defense.

a. Less than 0.5 percent.



the pay raise in calendar year 1986, neither of which were funded in 1986 with new budget authority because unobligated balances from procurement and RDT&E were made available instead.

Other significant increases include \$80 million for permanent change of station allowances, \$70 million for enlisted subsistence, and \$170 million for reenlistment bonuses. The budget contains an allowance--\$2.6 billion--in addition to the requested budget authority, for a 4 percent military pay raise effective October 1, 1986. The CBO baseline assumes a 3.3 percent military pay raise.

Operation and Maintenance

The O&M accounts fund a wide range of activities--some directly related to force operations, such as training exercises, weapons maintenance, supplies, and other general logistical support. O&M also funds personnel support activities--such as training of individual members (apart from training in units), medical care, and military base or community services--which are only indirectly related to force readiness. Overall, O&M has a much higher rate of real growth--about 12 percent--in 1987 than the 6 percent average from 1980 through 1985, allowing some recovery from the 6 percent real decline experienced in 1986. As shown in Table III-6, all individual activities of the O&M account follow the overall pattern of real growth, except airlift and sealift--the program for moving forces over long distances.

In dollar terms, the largest real growth--about \$2 billion--would go to general purpose forces. These include active duty conventional forces--army divisions, aircraft carrier battle groups, and tactical air wings--along with theater nuclear forces like Pershing missile batteries. In contrast, strategic forces embrace intercontinental nuclear forces such as the Minuteman and MX missiles, the Trident submarine and missiles, B-52 and B-1 bombers, and other support forces. Strategic forces would grow by about \$1.0 billion in real terms under the President's budget. The increases in these two major force programs would fund about 200,000 hours of flying time for Army and Air Force units; support additional forces, like a new Trident submarine and several B-1 aircraft; and pay for force modernization, for example, the M-1 tank and the Apache attack helicopter.

Reserve force funding would grow by over 10 percent in 1987. These forces would receive the additional money for training and weapons support. Flying time for aviation units and time at sea for the naval reserve both would increase. Backlogs in clothing and equipment supplies would be reduced by the budget request. Intelligence and communications programs